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16 March 2006

The Secretary
Urgent Issues Group
PO Box 204
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MELBOURNE VIC 8007

Via email: canstis@aasb.com.au

Dear Mr Anstis

Draft UIG Comment Letter to IFRIC Draft Interpretation D18 Interim Financial Reporting and Impairment (January 2006)

Thank you for the opportunity to comment on the draft UIG Comment Letter to IFRIC Draft Interpretation D18 Interim Financial Reporting and Impairment (January 2006).

Our comments have been prepared in consultation with members through our Centre of Excellence – Financial Reporting and Governance.

1. CPA Australia supports the approach proposed in Draft Interpretation D18 to resolving the conflict between IAS 34 Interim Financial Reporting and IAS 36 Impairment of Assets. We do not support the approach proposed in the draft UIG Comment Letter for the following reasons:

   - Goodwill. We understand IAS 36:

     - to require the assessment at each reporting date whether there is any indication that an asset may be impaired (paragraph 9). We note the IFRS Glossary of Terms definition of “reporting date” is “The end of the latest period covered by financial statements or by an interim financial report.”; and
     - to require the immediate recognition in profit or loss of any impairment loss to reduce the carrying amount of the goodwill allocated to the cash-generating unit (paragraphs 60 and 104); and
     - to prohibit the reversal of an impairment loss in a subsequent period (paragraph 124).

     We contend that the specific impairment principles re the recognition and measurement of impairment losses established in IAS 36 must override the general reporting principle established in IAS 34 – the frequency of reporting should not affect the measurement of an entity’s annual result (paragraph 28).

We note no inconsistency arises in the application of IAS 34 and IAS 36 when the impairment loss for goodwill is the consequence of a cash-generating unit to which goodwill has been allocated presenting with an indication of impairment (see paragraphs 88 and 90). The same is true should the date of the annual impairment test for a cash-generating unit to which goodwill has been allocated align with the date of the interim report. We consider that Draft Interpretation D18 would be improved by including these observations in the Basis for Conclusions.

- Investments in equity instruments (Available-for-sale financial assets) and Financial assets carried at cost. We understand IAS 39 Financial Instruments: Recognition and Measurement:

  - to require an assessment at each balance sheet date whether there is any objective evidence of impairment present (paragraph 58);
  - to require that any calculated impairment loss be recognised through profit or loss (paragraphs 66 and 67); and
  - to prohibit reversals (paragraphs 66 and 69).

  We note that “balance sheet date” is not defined in the IFRS Glossary of Terms. We have reasoned that the appropriate meaning to be given to “balance sheet date” is that used to define “reporting date”. Accordingly, we contend that the specific impairment principles re the recognition and measurement of impairment losses for available-for-sale financial assets and financial assets carried at cost as established in IAS 39 must override the general reporting principle established in IAS 34.

  We consider that Draft Interpretation D18 would be improved by making use of the category “Available-for-sale financial assets” in place of “Investments in equity instruments”.

2. CPA Australia supports the comments proposed in the draft UIG Comment letter that it would be best to resolve the conflict between IAS 34 and other Standards through amendment to IAS 34.

3. CPA Australia supports the comments proposed in the draft UIG Comment Letter re transition requirements.

Should you have any queries on our comments, please contact Dr Mark Shying, CPA Australia’s Financial Reporting and Governance Senior Policy Adviser at mark.shying@cpaaustralia.com.au.

Yours sincerely

Geoff Rankin FCPA
Chief Executive Officer

cc: M Shying